

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Northwest Ottawa Water Treatment Plant	County Ottawa
Fiscal Year End 06/30/2006	Opinion Date 10/11/2006	Date Audit Report Submitted to State 11/27/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

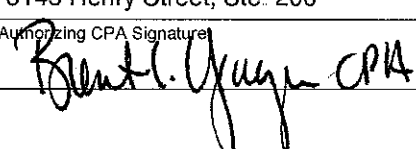
YES
NO

Check each applicable box below (See instructions for further detail)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin)
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover
11. ☒ ☐ The local unit is free of repeated comments from previous years
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP)
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es) and a description(s) of the authority and/or commission

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	N/A - None	
Other (Describe)	<input type="checkbox"/>	N/A - None	
Certified Public Accountant (Firm Name) Pridnia LaPres, PLLC		Telephone Number 231-739-9441	
Street Address 3145 Henry Street, Ste. 200		City Muskegon	State MI
Zip 49441			
Authorizing CPA Signature 		Printed Name Brent C. Yeager, CPA	License Number 1101021594

Northwest Ottawa Water Treatment Plant



Financial Statements
Years Ended June 30, 2006 and 2005

Northwest Ottawa Water Treatment Plant

Contents

Transmittal Letter	3-5
Independent Auditors' Report	6
Management Discussion and Analysis	7-10
Financial Statements	
Statements of Net Assets	11-12
Statements of Revenue, Expenses, and Changes in Net Assets	13
Statements of Cash Flows	14-15
Notes to Financial Statements	16-25



November 1, 2006

Honorable Mayor and City Council
Northwest Ottawa Water System Administrative Committee

It is with great pleasure that we present the Northwest Ottawa Water System (NOWS) Financial Statements for the fiscal year ended June 30, 2006.

NOWS is a joint venture of Northwest Ottawa area local units of government to provide water treatment services for their respective communities. As the City of Grand Haven, by contract, is the fiscal agent for NOWS, this report has been prepared by City Administration, particularly the Finance Office. City Administration holds full responsibility for the completeness and accuracy for all statements, schedules, notes and analysis herein. To provide a reasonable basis for making these representations, City Administration has maintained a system of internal controls to protect NOWS assets from theft, loss, or misuse and to compile reliable information for the presentation of our financial statements in conformity with generally accepted accounting principles. The cost of internal controls should not exceed the benefits received; therefore the internal controls have been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. As City Administration, we assert, to the best of our knowledge and belief, that this financial report is complete and reliable in all material respects.

The Reporting Entity

NOWS was established March 1, 1988, through a joint venture agreement between the City of Grand Haven, the City of Ferrysburg, the Charter Township of Grand Haven and the Township of Spring Lake to provide regional water treatment services. The Village of Spring Lake joined NOWS on April 24, 1992. In 1986, the current water treatment plant was built. Over the years the plant has been upgraded and modified to its current rated capacity of 15.5 million gallons per day. It presently operates at an average capacity of 50% during the majority of the year and at 80% capacity during the summer. In 1991, the north intake bed and pumping station was built. In 2005, the south intake bed was repaired after the initial project failed to operate properly. The City's Ranney Wells and Crows Foot intakes were dismantled in 2002, due to high maintenance and poor production. NOWS presently serves a population of approximately 45,000.

The City of Grand Haven provides contractual management and financial administration under contractual agreement to NOWS and to the following organizations:

Grand Haven/Spring Lake Sewer Authority, a separate governmental entity providing wastewater treatment services, and,
Ottawa County Central Dispatch Authority, a component unit of Ottawa County, providing "911" emergency dispatch services.

The financial reports of these entities as well as the City of Grand Haven are reported elsewhere and are not included here.

Budgeting and Financial Planning

As part of the City's financial planning process, the NOWS Administrative Committee adopts an annual budget including a five year Capital Improvement Plan. These two documents address the Administrative Committee's strategy to improve water treatment operations and maintain the water plant. The budget document provides the financial framework for planning and control, as well as defining NOWS efforts for the future. The Capital Improvement Plan provides the Administrative Committee and staff with a strategy for future major capital items and related financial resources that will be required over the next five years to implement the Administrative Committee vision.

The budget process begins in late fall with a goal-setting session. The Water Plant Manager, the Grand Haven City Director of Public Works, the City Finance Director and the City Manager, working as a Budget Committee draft the budget on a line item basis, considering capital and operational priorities separately and combining both into a preliminary budget document. The NOWS Administrative Committee adopts the budget, which is included in the overall City of Grand Haven budget document for ease of public review.

After the close of the fiscal year, the annual Financial Statements are prepared to report on the financial condition of NOWS and the fiscal results of its operations. Included in the report are comparisons of actual revenues and expenditures of the audit year and the prior year.

Economic Condition and Outlook

The current state economic conditions present employment challenges for displaced employees and the local economy as a whole. Economic forecasts indicate a continuation of challenging conditions for 2006 and beyond. Keys to these forecasts are reductions in auto industry capital plans and an overall retrenching in Michigan's manufacturing economy.

NOWS has noted a continuing increase in water treatment demand from its local municipal customers. The south intake and the remodeled pump station were reconstructed under Ottawa County Public Utilities direction and efforts to utilize this intake began in early winter 2005. The south intake was reconstructed later in 2005 as the initial construction failed to perform effectively. Litigation is ongoing regarding the construction. NOWS anticipates the need for a fully functional intake system to match increased pumping capacity for a proposed expanded 23.25 million gallon treatment facility which is being considered. NOWS can receive additional water for its customers from water system interconnects with Muskegon and Grand Rapids water systems. NOWS notes the continuing population increase in the townships and future economic and industrial growth will provide increasing demand for water in the future.

2005-06 Initiatives:

- Complete pump station roofing project.
- Evaluate high service pumps for repairs.
- Evaluate operation and maintenance of the south intake and pumping station.
- Complete water supply and treatment alternatives evaluation.
- Begin the Source Water Intake Protection Plan (SWIPP) through a Coastal Management Program Grant.

Future Initiatives:

- Inspect and evaluate the North Intake system.
- Evaluate the necessity and repair of the existing Backwash Retention Tank.
- Consider expansion of the water treatment facility, including security enhancements.
- Review and propose a remote site SCADA system for NOWS.
- Begin landscaping the front portion of the water treatment plant compound.
- Inspect and repair low-service and high-service pumps as needed.
- Inspect and repair roofing material as needed until plant expansion.
- Make heating and cooling repairs as needed until plant expansion.
- Make dehumidification repairs as needed until plant expansion.

New Reporting Model Format

The format of the Financial Statements using GASB Statement 34 guidelines is significantly different from years prior to June 30, 2003. The objective of the new model is to increase accountability of NOWS by providing more useful information to a wider range of users. A few of the more significant changes include:

- New to the last four year's reports are both this transmittal letter and the "Management Discussion and Analysis" (MD&A). These documents provide a more in-depth review and discussion of the NOWS financial position. GASB Statement 34 provides very specific guidance for topics that must be covered in the MD&A. Many of the key financial topics are covered by the MD&A which can be found immediately after the auditor's opinion letter.
- Consistent with the appropriate accounting basis for enterprise funds, NOWS statements are presented on a full accrual basis of accounting. The full accrual method addresses overall operating results and the financial position of the NOWS as an economic entity, as is done in the private sector.
- NOWS has only one operating fund, a proprietary fund.

Once readers understand how the now-current reporting model works, the format will most probably be preferred because of the additional information available. The NOWS report is significantly less complex than other municipal reports due to the single fund included in the report and the proprietary fund format.

Independent Audit

State statute and the various local unit charters require an annual financial audit by an independent certified public accountant. In May 2003, City Council selected the accounting firm of BDO Seidman, Certified Public Accountants, who provided auditing services for the first years of the engagement. In the summer of 2004, BDO Seidman sold its Muskegon office to former BDO partners. Pridnia LaPres, PLLC provides the same auditing staff originally provided by BDO Seidman and at the same cost.

Acknowledgments

The work of preparing the financial report has required the help and assistance of many people. The staff of the City of Grand Haven Finance and City Treasurer Departments in particular spent many hours working on this project. Susan LaPage, Accounting Supervisor, deserves special thanks for her efforts in organizing and directing the audit preparation work.

Sincerely,

Patrick McGinnis
City Manager and
Chairman of the NOWS
Administrative Committee
616 847-4888
pmcginnis@grandhaven.org

James P. Bonamy
Finance Director
616 935-3214
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Independent Auditors' Report

To the Members of the Administrative Committee
Northwest Ottawa Water Treatment Plant
Grand Haven, Michigan

We have audited the accompanying financial statements of the Northwest Ottawa Water Treatment Plant as of June 30, 2006 and 2005 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Northwest Ottawa Water Treatment Plant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwest Ottawa Water Treatment Plant as of June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Pridnia Lapres, PLLC

October 11, 2006

**Northwest Ottawa Water Treatment Plant
Management Discussion and Analysis
June 30, 2006**

1) Financial Highlights

- a) The Northwest Ottawa Water System ("NOWS") operates a Treatment Plant Fund to account for costs of operation and maintenance of a joint purchase venture water treatment facility serving the Northwest Ottawa communities of the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Charter Township of Grand Haven and the Township of Spring Lake and their end-user water customers. The NOWS Fund ended the fiscal year in better financial position than the prior year and under budget. Overall debt was lower due annual principal payments.
- b) Business-type activities net assets increased from \$3,852,257 to \$4,483,088.
- c) Total operating expenses for business-type activities decreased from \$1,705,626 to \$1,541,398.

2) Overview of Financial Statements

a) Overall financial picture.

The financial statements provide the NOWS financial position using the full accrual method of accounting. This method of accounting is similar to private sector for-profit accounting.

i) Statement of Net Assets

The *Statement of Net Assets* provides information on assets, liabilities and the difference between assets and liabilities, which is called net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. A trend of increasing net assets is viewed as a sign of improving condition. The *Statement of Net Assets* is similar to a balance sheet in private sector accounting.

ii) Statement of Activities

The *Statement of Activities* reports the underlying causes of the change in net assets. All changes in net assets are reported as the change occurs and includes depreciation on the assets. This statement does not report any capital projects. Capital projects are reported on the *Statement of Net Assets*.

b) Notes to the Financial Statements

Immediately after the financial statements are the Notes to the Financial Statements. The Notes are an integral part of the financial statements. The Notes contain many additional disclosures about the financial health of NOWS.

3) Financial Analysis

a) Net Assets

The *Statement of Net Assets* provides an overview of NOWS assets, liabilities and net assets. As mentioned above, over time, this can provide a good indicator of fiscal health. A comparative analysis between the current report year and the prior year is herein presented.

On the next page is a summarized version of the *Statement of Net Assets*.

**Northwest Ottawa Water Treatment Plant
Management Discussion and Analysis
June 30, 2006**

Net Assets		
June 30,	2006	2005
Assets		
Current and other assets	\$ 439,894	\$ 771,236
Capital and restricted assets	7,584,304	7,814,656
Total Assets	\$8,024,198	\$ 8,585,892
Liabilities		
Long-term debt	\$2,425,000	\$ 3,288,750
Other liabilities	1,116,110	1,444,885
Total Liabilities	\$3,541,110	\$ 4,733,635
Net Assets		
Invested in capital assets, net of related debt	\$4,462,547	\$ 3,852,257
Unreserved	20,541	-
Total Net Assets	\$4,483,088	\$3,852,257

The total assets of NOWS are \$8,024,198, however, \$6,887,547 represents net investment in capital assets including infrastructure. Of the more liquid assets, \$696,757 is restricted. Total net assets increased by \$630,831 in FY2006.

b) **Changes in Net Assets**

Significant changes in net assets are shown in the table on the next page.

**Northwest Ottawa Water Treatment Plant
Management Discussion and Analysis
June 30, 2006**

Changes in Net Assets

Years ended June 30,	2006	2005
Revenue		
Operating Revenue – Earned revenue	\$ 1,193,547	\$ 1,094,811
Operating Expenses		
Purchased water	257,626	414,776
Intake	216,785	202,218
Treatment	425,240	472,601
Administrative	268,392	242,854
Depreciation	373,355	373,177
Total Operating Expenses	\$ 1,541,398	\$ 1,705,626
Non-Operating Revenue (Expenses)		
Debt service charge	984,551	\$ 920,218
Capital replacement charge	120,657	85,602
Interest income on investments	35,446	14,130
Interest expense	(120,722)	(139,385)
Deferred charge on refunding	(41,250)	(41,250)
Other	-	7,746
Total Non-Operating Revenue	\$ 978,682	\$ 847,061
Changes in Net Assets	630,831	\$ 236,246
Net Assets, beginning of year	\$ 3,852,257	\$ 3,616,011
Net Assets, end of year	\$ 4,483,088	\$ 3,852,257

c) **Business-type Activities – Highlights**

The business-type activities had an increase in net assets of \$630,831 from revenues of \$2,334,201. The largest source of revenue was from earned revenue \$1,193,547 or 51.13% of revenues for business-type activities

4) **Financial Analysis of Individual Funds**

NOWS had revenues of \$2,334,201, an increase of \$211,694 from the prior fiscal year.

**Northwest Ottawa Water Treatment Plant
Management Discussion and Analysis
June 30, 2006**

5) Capital Assets and Debt Administration

a) Capital assets

NOWS has \$6,887,547 invested in capital assets net of depreciation. Capital assets include all purchases of assets that exceed \$1,000 and have an expected useful life greater than one year. Capital assets includes: land, land improvements, buildings, equipment, and utility systems such as water distribution lines. NOWS uses straight line depreciation for all depreciable assets. In FY2006, capital assets decreased by \$355,594 in business-type activities primarily in depreciation.

b) More detailed information about changes in capital assets can be found in Note 3 of the footnotes.

6) Debt

a) Summary of debt

NOWS had \$3,495,000 in debt outstanding as of June 30, 2006.

b) Note 5 of the footnotes provides more detailed information on debt and other obligations

7) Economic Forecast

NOWS has one main source of revenue, utility charges. Utility sales are affected by the economy and can experience large swings of revenue from changes in weather conditions. Winter conditions produce less consumption. Increasing consumption is noted during the late spring, peaking in summer and declining in autumn. Additionally, NOWS has reconstructed a second intake bed and has installed an interconnect with the Grand Rapids Water System for anticipated future consumer demand. (Emergency interconnects with Norton Shores, Muskegon and Grand Rapids water systems are also in place to ensure service.) For the FY2006-07 budget, the NOWS Administrative Committee anticipates that sales will be roughly equal to FY2005-06 volumes.

8) Contacting the NOWS Financial Management Staff

The City of Grand Haven, by contract, provides fiscal and administrative services to NOWS. This financial report is designed to provide interested individuals including citizens, taxpayers, customers, investors and creditors, with a general overview of NOWS finances and to show NOWS accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at 519 Washington Avenue, Grand Haven, MI 49417, or call or e-mail us as noted below:

Patrick McGinnis
City Manager
616 847-4888
pmcginnis@grandhaven.org

James P. Bonamy
Finance Director
616 935-3214
jbonyam@grandhaven.org

<i>June 30,</i>	2006	2005
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 128,957	\$ 356,141
Due from other governmental units	264,091	365,007
Inventories	46,846	50,088
Total Current Assets	439,894	771,236
Long-Term Assets		
Capital assets -- net (Note 3)	6,887,547	7,243,141
Restricted assets (Note 4)	696,757	571,515
Total Assets	\$ 8,024,198	\$ 8,585,892

Northwest Ottawa Water Treatment Plant

Statements of Net Assets

<i>June 30,</i>	2006	2005
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 61,260	\$ 165,309
Accrued and other liabilities	77,203	100,107
Due to other governmental units	1,574	9,443
Billing adjustment due to member units (Note 6)	56,511	218,783
Total Current Liabilities	196,548	493,642
Current Liabilities Payable from Restricted Assets (Note 4)	919,562	951,243
Long-Term Debt – Less current maturities (Note 5)	2,425,000	3,288,750
Total Liabilities	3,541,110	4,733,635
Net Assets		
Invested in capital assets, net of related debt	4,462,547	3,852,257
Unreserved	20,541	-
Total Net Assets	4,483,088	3,852,257
Total Liabilities and Net Assets	\$ 8,024,198	\$ 8,585,892

See accompanying notes to financial statements

Northwest Ottawa Water Treatment Plant

Statements of Revenue, Expenses, and Changes in Net Assets

<i>Years ended June 30,</i>	2006	2005
Operating Revenue – Earned revenue	\$ 1,193,547	\$ 1,094,811
Operating Expenses		
Purchased water	257,626	414,776
Intake	216,785	202,218
Treatment	425,240	472,601
Administrative	268,392	242,854
Depreciation	373,355	373,177
Total operating expenses	1,541,398	1,705,626
Operating Loss	(347,851)	(610,815)
Non-Operating Revenue (Expense)		
Debt service charge	984,551	920,218
Capital replacement charge	120,657	85,602
Interest income on investments	35,446	14,130
Interest expense	(120,722)	(139,385)
Deferred charge on refunding	(41,250)	(41,250)
Other	-	7,746
Total non-operating revenue	978,682	847,061
Changes in Net Assets	630,831	236,246
Net Assets – Beginning of year	3,852,257	3,616,011
Net Assets – End of year	\$ 4,483,088	\$ 3,852,257

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Statements of Cash Flows

<i>Years ended June 30,</i>	2006	2005
Cash Flows from Operating Activities		
Operating loss	\$ (347,851)	\$ (610,815)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation	373,355	373,177
Changes in assets and liabilities		
Due from other governmental units	100,916	(190,792)
Inventory	3,242	(14,255)
Accounts payable	(104,049)	84,720
Accrued and other liabilities	(22,904)	25,398
Due to other governmental units	(170,141)	209,322
Billing adjustment due from member governmental units	-	175,952
Net Cash Provided by (Used for) Operating Activities	(167,432)	52,707
Cash Flows from Capital and Related Financing Activities		
Principal and interest paid on long-term debt	(1,057,403)	(1,106,125)
Proceeds from debt service charge	987,820	856,100
Proceeds from capital replacement charge	120,657	85,602
Purchase of capital assets	(17,761)	(1,478)
Proceeds from other revenue	-	7,746
Net Cash Provided by (Used for) Capital and Related Financing Activities	33,313	(158,155)
Cash Flows from Investment Activities		
Interest received on investments	35,446	14,130
Net Decrease in Cash and Cash Equivalents	(98,673)	(91,318)
Cash and Cash Equivalents – Beginning of year	697,269	788,587
Cash and Cash Equivalents – End of year	\$ 598,596	\$ 697,269

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Statements of Cash Flows

<i>June 30,</i>	2006	2005
Statements of Net Assets		
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 128,957	\$ 356,141
Restricted assets (Note 4)	469,639	341,128
Total	\$ 598,596	\$ 697,269

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The Northwest Ottawa Water Treatment Plant (the "Plant") was established for the purpose of constructing, owning, and operating a water treatment system for its participating municipalities: the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Township of Spring Lake, and the Township of Grand Haven

Under a contract executed in 1988, the City of Grand Haven (the "City") is operating and maintaining the Plant. Monthly operating expenses are billed by the City to the constituent municipalities for their proportionate share of those expenses.

Basis of Accounting

The accrual basis of accounting is used in preparing the financial statements

Cash Equivalents

For purposes of the statement of cash flows, the Plant considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents

Inventories

Inventories are valued at cost, on a first-in, first-out basis, which approximates market value

Capital Assets

Capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation is computed on a straight-line method based on the estimated useful lives of the related assets. Costs of maintenance and repairs are charged to expense when incurred

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

Water plant, lake intakes, water mains, furniture and equipment are depreciated using the straight-line method over the following useful lives:

Water plant	30
Lake intakes	10-50
Water mains	50
Structures and equipment	33
Office furniture	5

2. Deposits

Deposits

State statutes require that certificates of deposit, savings accounts and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also members of a federal or national insurance corporation

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Plant's deposits might not be recovered. The Plant does not have a deposit policy for custodial credit risk. At June 30, 2006, \$498,596 of the Plant's bank balances of \$598,596 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized:	\$ 498,596
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Investments

Interest Rate Risk

The Plant does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty or bank, the Plant will not be able to recover the value of its investments that are in the possession of an outside party. The Plant was not exposed to custodial credit risk related to investments

Credit Risk

State statutes authorize the Plant to invest in obligations and certain repurchase agreements of the U S Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by a state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments

The Plant had no investment policy that would further limit its investment choices

Concentration of Credit Risk

The Plant places no limit on the amount the Plant may invest in any one issuer.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

3. Capital Assets

Capital assets consist of the following:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Capital assets not depreciated				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Capital assets being depreciated				
Water plant	8,065,142	-	-	8,065,142
Lake intakes	4,880,137	-	-	4,880,137
Water mains	694,274	-	-	694,274
Structures and equipment	70,265	17,345	-	87,610
Office furniture	14,512	416	-	14,928
	13,724,330	17,761	-	13,742,091
Accumulated depreciation				
Water plant	4,723,022	257,228	-	4,980,250
Lake intakes	1,364,485	98,460	-	1,462,945
Water mains	401,006	13,886	-	414,892
Structures and equipment	9,810	2,877	-	12,687
Office furniture	8,866	904	-	9,770
	6,507,189	373,355	-	6,880,544
Net Capital Assets Being Depreciated	7,217,141	(355,594)	-	6,861,547
Net Capital Assets	\$ 7,243,141	\$(355,594)	\$ -	\$ 6,887,547

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

4. Restricted Assets Restricted assets consist of the following:

<i>June 30,</i>	2006	2005
Cash and cash equivalents (capital improvements)	\$ 275,100	\$ 139,733
Cash and cash equivalents (for repayment of debt)	194,539	201,395
Due from other governmental units (for repayment of debt)	227,118	230,387
Total Restricted Assets	696,757	571,515
Less current liabilities payable from restricted assets		
Current portion of long-term debt	(905,000)	(935,000)
Accrued interest on long-term debt	(14,562)	(16,243)
Total Current Liabilities Payable from Restricted Assets	(919,562)	(951,243)
Net Restricted Assets	\$ (222,805)	\$ (379,728)

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

5. Long-Term Debt Outstanding Debt

Long-term debt consists of the following:

<i>June 30,</i>	2006	2005
Contract payable to Ottawa County for 2.2% to 3.2% water treatment facility bonds – 1992 (refinanced – 2002, Series A)	\$ 1,890,000	\$ 2,465,000
Contract payable to Ottawa County for 2.2% to 3.2% intake bonds – 1989 (refinanced – 2002 Series B)	1,605,000	1,965,000
Less deferred charge on refunding	(165,000)	(206,250)
Total	3,330,000	4,223,750
Less current maturities	(905,000)	(935,000)
	\$ 2,425,000	\$ 3,288,750

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2006, including both principal and interest, are as follows:

<i>Year ended June 30,</i>	Principal	Interest
2007	\$ 905,000	\$ 100,255
2008	880,000	77,630
2009	865,000	52,990
2010	845,000	27,040
Total	\$ 3,495,000	\$ 257,915

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the years ended June 30, 2006 and 2005:

Years ended June 30, 2006 and 2005

Long-term debt – July 1, 2004	\$ 5,147,500
Debt retired	(965,000)
Amortization of deferred charge	41,250
Long-term debt – June 30, 2005	4,223,750
Debt retired	(935,000)
Amortization of deferred charge	41,250
Long-term debt – June 30, 2006	\$ 3,330,000

Debt Charges

The Plant receives a debt charge from participating communities for contracts payable to Ottawa County based on the volume of water sold to those communities. The Plant and the participating communities have pledged their full faith and credit on the contracts payable to Ottawa County.

Defeased Debt

In prior years, the Plant defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2006, \$10,740,000 of bonds outstanding are considered defeased.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

6. Billing Adjustment Due to Governmental Units

The Plant bills its member governmental units for operations, debt, and capital replacement. Following is an analysis of the billing adjustment related to the operations of the Plant:

<i>Years ended June 30,</i>	2006	2005
Payments to communities		
Amounts billed for fiscal year prior to June 30	\$ 1,250,058	\$ 1,313,594
Amounts contractually allowed to collect as adjusted for actual expenses	(1,193,547)	(1,094,811)
Total due to member units	\$ 56,511	\$ 218,783

7. Pension Plan

Plan Description

The Plant participates with the City of Grand Haven in the Michigan Municipal Employees' Retirement System (MMERS), a defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Plant's collective bargaining units. For the year ended June 30, 2006, required employee and employer contributions were suspended due to the overfunded status of the City's actuarial accrued liability.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

Three-Year Trend Information

Funding information for the Plant's participation in the pension plan is as follows:

<i>Years ended June 30,</i>	2006	2005	2004
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

8. Working Capital

In accordance with the master agreement with the member governmental units, the Board of Directors of the Plant has agreed to maintain 5/24ths of the operating expenses, excluding depreciation, for working capital.

Excess working capital may be refunded to the member governmental units at the discretion of the Board. \$56,511 and \$218,783 in excess working capital was due to be refunded to the units at June 30, 2006 and 2005, respectively.

9. Risk Management

The Plant is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. As an affiliate of the City of Grand Haven, the Plant is partially uninsured for health claims and has purchased commercial insurance for coverage related to claims in excess of certain stop-loss limits. The Plant also participates in the Michigan Municipal League risk pool for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts

The City estimates the liability for health claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the City of Grand Haven's Health Benefits Internal Service Funds.